

Program B: Loan Operations

Program Authorization: R.S. 36:642d(2); R.S. 36:650-615B; R.S. 17:3021 et seq; R.S. 56:797; P.L. 100-50; Acts 476 of 1997 Regular Session

PROGRAM DESCRIPTION

The mission of the Loan Operations Program is to administer and operate the federal and state educational loan programs for the benefit of all program participants.

The goals of the Loan Operations Program is to effectively and efficiently administer federal and state loan programs in compliance with statutory authority and regulation.

The Loan Operations Program includes the following activities:

1. Loan Administration - Processes new loans and services existing loan guarantees on behalf of the borrower and holder of the loan note.
2. Preclaims Section - Assists lenders, servicers, and delinquent borrowers in avoiding defaults on delinquent loans.
3. Claims Section - Processes claims against the loan guarantee filed by holders of the note and ensures that all claims scheduled for payment meet program requirements.
4. Collections Section - Maintains inventory control and collection activities to maximize recovery of defaulted loans and to ensure compliance with program regulations.

The Loan Operations Program administers federal and state student loan programs and performs the functions of loan origination and servicing, default prevention, default claim payment, and default recoveries.

OBJECTIVES AND PERFORMANCE INDICATORS

Unless otherwise indicated, all objectives are to be accomplished during or by the end of FY 2001-2002. Performance indicators are made up of two parts: name and value. The indicator name describes what is being measured. The indicator value is the numeric value or level achieved within a given measurement period. For budgeting purposes, performance indicator values are shown for the prior fiscal year, the current fiscal year, and alternative funding scenarios (continuation budget level and Executive Budget recommendation level) for the ensuing fiscal year (the fiscal year of the budget document).

| GENERAL PERFORMANCE INFORMATION: LOAN VOLUME | | | | | |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| PERFORMANCE INDICATOR | PRIOR YEAR ACTUAL FY 1995-96 | PRIOR YEAR ACTUAL FY 1996-97 | PRIOR YEAR ACTUAL FY 1997-98 | PRIOR YEAR ACTUAL FY 1998-99 | PRIOR YEAR ACTUAL FY 1999-00 |
| Percentage of loan volume for Louisiana colleges and universities participating in FFELP | Not available ¹ | 41.9% | 33.9% | 41.5% | 38.6% |
| Total guaranteed loan volume by OSFA | Not available ¹ | \$194,453,729 | \$184,332,060 | \$207,530,977 | \$205,794,090 |
| Total state's student loan volume from Louisiana schools participating in FFELP | Not available ¹ | \$463,649,194 | \$544,536,651 | \$500,076,700 | \$533,040,314 |

¹ This information is compiled and released by the U.S. Department of Education.

1. (KEY) To maintain a minimum reserve ratio that complies with the minimum federal requirement of .25%

Strategic Link: *This objective ties to OSFA Strategic Plan Objective I.2 in the Loan Operations Program.*

Louisiana: *Vision 2020 Link:* Not applicable

Children's Cabinet Link: Not applicable

Other Link(s): Not applicable

Explanatory Note: The minimum reserve ratio is the reserves to original principal outstanding. The minimum requirement for the previous year was 1.1%.

| L E V E L | PERFORMANCE INDICATOR NAME | PERFORMANCE INDICATOR VALUES | | | | | |
|-----------------------|---|--|--|---|---|--|---|
| | | YEAREND PERFORMANCE STANDARD FY 1999-2000 | ACTUAL YEAREND PERFORMANCE FY 1999-2000 | ACT 11 PERFORMANCE STANDARD FY 2000-2001 | EXISTING PERFORMANCE STANDARD FY 2000-2001 | AT CONTINUATION BUDGET LEVEL FY 2001-2002 | AT RECOMMENDED BUDGET LEVEL FY 2001-2002 |
| K | Reserve ratio - reserve balance/loans outstanding | 1.3% | 0.93% | 0.73% | 0.73% | 0.93% | 0.93% |
| K | Reserve fund cash balance (in millions) | \$19.5 | \$14.9 | \$12.2 | \$12.2 | \$14.4 | \$14.4 |
| K | Loans outstanding (in billions) | \$1.5 | \$1.234 | \$1.7 | \$1.7 | \$1.6 | \$1.6 |

| GENERAL PERFORMANCE INFORMATION: LOAN OPERATIONS | | | | | |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| PERFORMANCE INDICATOR | PRIOR YEAR ACTUAL FY 1995-96 | PRIOR YEAR ACTUAL FY 1996-97 | PRIOR YEAR ACTUAL FY 1997-98 | PRIOR YEAR ACTUAL FY 1998-99 | PRIOR YEAR ACTUAL FY 1999-00 |
| Cumulative default recovery rate | 42.6% | 45.7% | 49.3% | 56.5% | 62.5% |
| Cumulative collections - recoveries in millions | \$102 | \$119 | \$139 | \$170 | \$198 |
| Cumulative defaults paid - in millions | \$240 | \$261 | \$282 | \$300 | \$316 |
| Annual recoveries of defaulted loans - in millions | \$15 | \$17 | \$20 | \$31 | \$28 |

2. (KEY) To achieve an 92% aversion rate to insure defaults are less than 5% of loans in repayment.

Strategic Link: *This objective ties to OSFA Strategic Plan Objective II.2, to increase default aversions to 92% by June, 2002.*

Louisiana: Vision 2020 Link: Not applicable

Children's Cabinet Link: Not applicable

Other Link(s): Not applicable

Explanatory Note: Annual default rate is computed by dividing annual defaults paid by loans in repayment at the end of the prior federal fiscal year. Annual default rate below 5% insures OSFA the maximum reimbursement (reinsurance) from the U.S. Department of Education for loans paid in default.

| L E V E L | PERFORMANCE INDICATOR NAME | PERFORMANCE INDICATOR VALUES | | | | | |
|-----------------------|---|--|--|---|---|--|---|
| | | YEAREND PERFORMANCE STANDARD FY 1999-2000 | ACTUAL YEAREND PERFORMANCE FY 1999-2000 | ACT 11 PERFORMANCE STANDARD FY 2000-2001 | EXISTING PERFORMANCE STANDARD FY 2000-2001 | AT CONTINUATION BUDGET LEVEL FY 2001-2002 | AT RECOMMENDED BUDGET LEVEL FY 2001-2002 |
| K | Defaults averted rate | 86% | 90.5% | 88% | 88% | 92% | 92% |
| K | Annual default rate | Not applicable ¹ | 2.4% | 3.9% | 3.9% | 2.4% | 2.4% |
| S | Number of Lender's Requests for Assistance (LRA's) accepted | 42,356 | 42,550 | 48,164 | 48,164 | 49,359 | 49,359 |
| S | Number of Lender's Requests for Assistance (LRA's) averted | 36,426 | 38,513 | 42,384 | 42,384 | 45,411 | 45,411 |
| S | Annual default claims paid (in millions) | \$27.6 | \$16.7 | \$30.3 | \$30.3 | \$21.2 | \$21.2 |
| S | Loans in repayment (in millions) ² | \$728.6 | \$870.5 | \$778.6 | \$778.6 | \$876.5 | \$876.5 |

¹ New indicator added for FY 2000-2001, therefore the indicator has no Yearend performance standard for FY 1999-2000.

² The is figure represents the total loans in repayment at the end of the prior federal fiscal year.

3. (KEY) To increase the default recovery collections by (amount not provided) %.

Strategic Link: *This objective ties to OSFA Strategic Plan Objective II.3, to increase collections by 37% by September 30, 2003.*

Louisiana: *Vision 2020 Link:* Not applicable

Children's Cabinet Link: Not applicable

Other Link(s): Not applicable

Explanatory Note: An objective related to default recovery collections appeared in the operational plan in prior years. This information also included the following performance indicators listed below. This information was requested for inclusion for FY 2001-2002 by OPB. However, the objective and indicator were omitted from the strategic plan, and the 2001-2002 operational plan by the agency. The agency states that they consider the information to be irrelevant.

| L E V E L | PERFORMANCE INDICATOR NAME | PERFORMANCE INDICATOR VALUES | | | | | |
|-----------------------|---|--|--|---|---|--|---|
| | | YEAREND PERFORMANCE STANDARD FY 1999-2000 | ACTUAL YEAREND PERFORMANCE FY 1999-2000 | ACT 11 PERFORMANCE STANDARD FY 2000-2001 | EXISTING PERFORMANCE STANDARD FY 2000-2001 | AT CONTINUATION BUDGET LEVEL FY 2001-2002 | AT RECOMMENDED BUDGET LEVEL FY 2001-2002 |
| K | Percentage increase in default recovery collections | 8.9% | 12.0% | 8.0% | 8.0% | Not provided | Not provided |
| K | Default collections (in millions) | \$15,958,778 | \$15.227 | \$17,234,412 | \$17,234,412 | Not provided | Not provided |

4. (SUPPORTING) To increase the Claims Acceptance Rate to (amount not provided).

Strategic Link: Not provided

Louisiana: Vision 2020 Link: Not applicable

Children's Cabinet Link: Not applicable

Other Link(s): Not applicable

Explanatory Note: An objective related to the Claims Acceptance Rate appeared in the operational plan in prior years. This information also included the following performance indicators listed below. This information was requested for inclusion for FY 2001-2002 by OPB. However, the objective and indicator were omitted from the strategic plan, and the 2001-2002 operational plan by the agency. The agency states that they consider the information to be irrelevant.

| L E V E L | PERFORMANCE INDICATOR NAME | PERFORMANCE INDICATOR VALUES | | | | | |
|-----------------------|-------------------------------|------------------------------------|----------------------------------|-----------------------------------|-------------------------------------|------------------------------------|-----------------------------------|
| | | YEAREND PERFORMANCE STANDARD | ACTUAL YEAREND PERFORMANCE | ACT 11 PERFORMANCE STANDARD | EXISTING PERFORMANCE STANDARD | AT CONTINUATION BUDGET LEVEL | AT RECOMMENDED BUDGET LEVEL |
| | | FY 1999-2000 | FY 1999-2000 | FY 2000-2001 | FY 2000-2001 | FY 2001-2002 | FY 2001-2002 |
| | | | | | | | |
| S | Percentage of claims accepted | Not applicable ¹ | Not provided | 85.0% | 85.0% | Not provided | Not provided |
| S | Number of claims received | Not applicable ¹ | Not provided | 11,480 | 11,480 | Not provided | Not provided |

¹ New indicator added for FY 2000-2001, therefore the indicator has no Yearend performance standard for FY 1999-2000.

RESOURCE ALLOCATION FOR THE PROGRAM

| | ACTUAL 1999- 2000 | ACT 11 2000 - 2001 | EXISTING 2000 - 2001 | CONTINUATION 2001 - 2002 | RECOMMENDED 2001 - 2002 | RECOMMENDED OVER/(UNDER) EXISTING |
|---|----------------------|-----------------------|-------------------------|-----------------------------|----------------------------|---|
| MEANS OF FINANCING: | | | | | | |
| STATE GENERAL FUND (Direct) | \$12,456 | \$12,162 | \$12,162 | \$12,162 | \$12,162 | \$0 |
| STATE GENERAL FUND BY: | | | | | | |
| Interagency Transfers | 0 | 0 | 0 | 0 | 0 | 0 |
| Fees & Self-gen. Revenues | 7,282 | 14,414 | 14,414 | 14,414 | 14,414 | 0 |
| Statutory Dedications | 6,833 | 2,582,620 | 2,582,620 | 2,582,620 | 2,582,620 | 0 |
| Interim Emergency Board | 0 | 0 | 0 | 0 | 0 | 0 |
| FEDERAL FUNDS | 23,030,110 | 26,333,848 | 26,333,848 | 30,341,722 | 30,442,237 | 4,108,389 |
| TOTAL MEANS OF FINANCING | \$23,056,681 | \$28,943,044 | \$28,943,044 | \$32,950,918 | \$33,051,433 | \$4,108,389 |
| EXPENDITURES & REQUEST: | | | | | | |
| Salaries | \$1,591,182 | \$1,641,784 | \$1,841,308 | \$2,017,812 | \$2,053,140 | \$211,832 |
| Other Compensation | 74,813 | 62,551 | 62,551 | 62,551 | 62,551 | 0 |
| Related Benefits | 304,096 | 311,891 | 349,302 | 383,633 | 391,985 | 42,683 |
| Total Operating Expenses | 598,905 | 1,138,601 | 782,818 | 796,630 | 857,065 | 74,247 |
| Professional Services | 15,450 | 180,000 | 180,000 | 183,600 | 180,000 | 0 |
| Total Other Charges | 20,428,206 | 25,604,567 | 25,704,965 | 29,506,692 | 29,506,692 | 3,801,727 |
| Total Acq. & Major Repairs | 44,029 | 3,650 | 22,100 | 0 | 0 | (22,100) |
| TOTAL EXPENDITURES AND REQUEST | \$23,056,681 | \$28,943,044 | \$28,943,044 | \$32,950,918 | \$33,051,433 | \$4,108,389 |
| AUTHORIZED FULL-TIME EQUIVALENTS: Classified | 61 | 69 | 69 | 69 | 72 | 3 |
| Unclassified | 1 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 62 | 69 | 69 | 69 | 72 | 3 |

SOURCE OF FUNDING

This program is funded with the General Fund, Fees and Self-generated Revenues, Statutory Dedications, and Federal Funds. The Fees and Self-generated Revenue is derived from fees paid for participating school appealing their federal cohort default rate. The Statutory Dedications are from the Louisiana Employment Opportunity Loan Fund and the Louisiana Opportunity Loan Fund. (Per R.S. 39:32B.(8), see table below for a listing of expenditures out of each Statutory Dedicated fund.) The Federal Funds are from the Federal Family Education Loan (FFEL) Program's various administrative cost allowances and reimbursement of defaulted student loan claim payments made to participating lenders.

| | ACTUAL | ACT 11 | EXISTING | CONTINUATION | RECOMMENDED | RECOMMENDED |
|--|------------|-------------|-------------|--------------|-------------|--------------------------|
| | 1999- 2000 | 2000 - 2001 | 2000 - 2001 | 2001 - 2002 | 2001 - 2002 | OVER/(UNDER) EXISTING |
| Louisiana Employment Opportunity Loan Fund | \$0 | \$332,620 | \$332,620 | \$332,620 | \$332,620 | \$0 |
| Louisiana Opportunity Loan Fund | \$6,833 | \$2,250,000 | \$2,250,000 | \$2,250,000 | \$2,250,000 | \$0 |

ANALYSIS OF RECOMMENDATION

| GENERAL FUND | TOTAL | T.O. | DESCRIPTION |
|-----------------|--------------|------|---|
| \$12,162 | \$28,943,044 | 69 | ACT 11 FISCAL YEAR 2000-2001 |
| | | | BA-7 TRANSACTIONS: |
| \$0 | \$0 | 0 | None |
| \$12,162 | \$28,943,044 | 69 | EXISTING OPERATING BUDGET – December 15, 2000 |
| \$0 | \$113,805 | 0 | Annualization of FY 2000-2001 Classified State Employees Merit Increase |
| \$0 | \$94,486 | 0 | Classified State Employees Merit Increases for FY 2001 -2002 |
| \$0 | \$2,544 | 0 | Unclassified State Employees Merit Increases for FY 2001-2002 |
| \$0 | (\$22,100) | 0 | Non-Recurring Acquisitions & Major Repairs |
| \$0 | \$12,023 | 0 | Rent in State-Owned Buildings |
| \$0 | (\$48,133) | 0 | Attrition Adjustment |
| \$0 | \$654,449 | 0 | Other Adjustments - Renewal of software support contract |
| \$0 | \$3,345,675 | 4 | Other Adjustments - Increased collection of borrower payments |
| \$0 | (\$44,360) | (1) | Technical Adjustment - Transfer out of funding and a position to Administration & Support Program |
| \$12,162 | \$33,051,433 | 72 | TOTAL RECOMMENDED |
| \$0 | \$0 | 0 | LESS GOVERNOR'S SUPPLEMENTARY RECOMMENDATIONS |
| \$12,162 | \$33,051,433 | 72 | BASE EXECUTIVE BUDGET FISCAL YEAR 2001-2002 |
| | | | SUPPLEMENTARY RECOMMENDATIONS CONTINGENT ON NEW REVENUE: |
| \$0 | \$0 | 0 | None |
| \$0 | \$0 | 0 | TOTAL SUPPLEMENTARY RECOMMENDATIONS CONTINGENT ON NEW REVENUE |
| \$12,162 | \$33,051,433 | 72 | GRAND TOTAL RECOMMENDED |

The total means of financing for this program is recommended at 114.2% of the existing operating budget. It represents 99.8% of the total request (\$33,112,135) for this program. Additional federal funds provide for increased collection of defaulted student loans and renewal of a software support contract. A technical adjustment was made to transfer out one position and funding to the Administration & Support Program. The remaining adjustments were statewide adjustments.

PROFESSIONAL SERVICES

\$180,000 Administrative Hearing Officer for administrative wage garnishment hearings

\$180,000 TOTAL PROFESSIONAL SERVICES

OTHER CHARGES

\$12,263 Legislative Auditor - Annual audit contract

\$294,856 La. Employment Opportunity Loan Program - Default payments of the program

\$500,000 IRS tax offset refunds to borrowers

\$650,000 Default Aversion Fee - Federal fund to offset the cost of default aversion activities

\$1,256,242 Collection Contractors - outside collection agencies to collect defaulted student loans

\$1,409,449 USA Group - Software support for the Federal Family Education Loan Program (FFELP)

\$2,250,000 La. Opportunity Loan Program - Low interest non-subsidized educational loans

\$4,845,611 Net student loan default payments

\$18,147,278 Refund of Reinsurance - Secretary of Education's equitable share of collections on defaulted loans

\$29,365,699 SUB-TOTAL OTHER CHARGES

Interagency Transfers:

\$140,993 Building rent

\$140,993 SUB-TOTAL INTERAGENCY TRANSFERS

\$29,506,692 TOTAL OTHER CHARGES

ACQUISITIONS AND MAJOR REPAIRS

\$0 This program does not have funding for Acquisitions and Major Repairs for Fiscal Year 2001 - 2002.

\$0 TOTAL ACQUISITIONS AND MAJOR REPAIRS